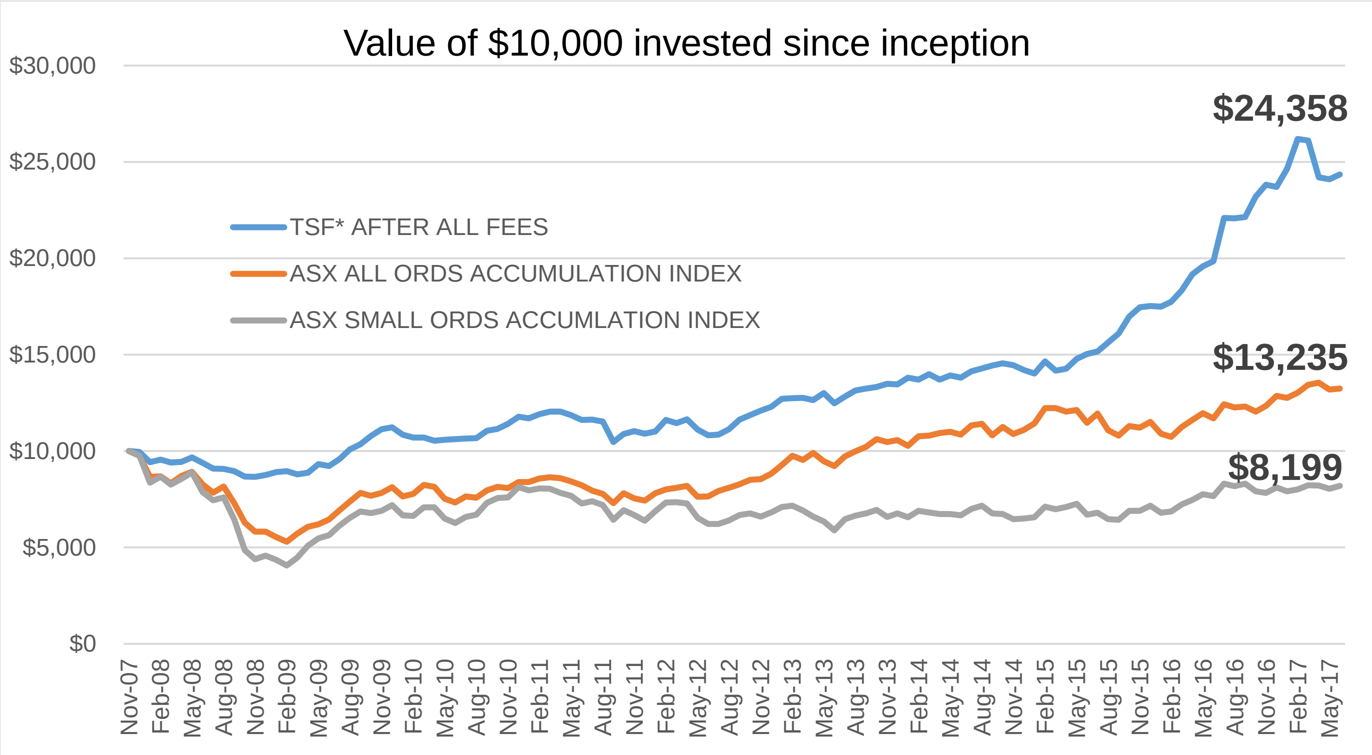
The Supervised Fund (TSF)

Monthly Report – June 2017

SUPERVISED INVESTMENTS AUSTRALIA

PERFORMANCE ANALYSIS	TSF AFTER FEES	ALL ORDS ACCUM	BENCHMARK
Month ending 30 June 2017	**1.1%**	0.3%	0.4%
6 months	**2.7%**	2.9%	2.5%
12 months	**22.7%**	13.1%	5.0%
3 years p.a	**20.8%**	6.8%	5.0%
Since Inception p.a (Dec 2007)	**9.7%**	3.0%	5.0%



*Please note TSF returns assume reinvestment of all distributions (as do the indices).

Portfolio at 30 June 2017

Top 15 Positions	% of NAV
Kangaroo Island Plantation Timbers Ltd	23%
Cash	15%
HGL Limited	11%
Hillgrove Resources Limited (equity, notes and calls)	8%
Gale Pacific Limited	6%
Nine Entertainment Co Limited	4%
ETFS Physical Gold	4%
Po Valley Energy Limited	4%
Base Resources Limited	4%
Sirtex Medical Limited	3%
Bell Financial Group Limited	3%
NZME Limited	2%
Ariadne Australia Limited	2%
Undisclosed**	2%
HT&E Limited	1%

**We are still buying this company.

- 0.5% of capital is invested in (put) options over stock market indices.
- 2% of capital is invested in non-ASX listed investments (excluding cash).
- 7% of capital is invested in ASX200 members.
- 16% of capital is invested in oil, gas and resources companies (excluding gold).
- 7% of capital is invested in physical gold and gold mining companies.
- 54% of capital is invested in companies with a market capitalisation of less than $150m.

Commentary

The Fund's return during June was primarily driven by Hillgrove Resources (up 10%) and Sirtex Medical Limited (up 35%). Late in the month, Sirtex's new CEO announced a profit upgrade and a series of material cost cutting initiatives – click here to view last month's report where we detailed our investment thesis.

The Fund ended the 2017 financial year with a respectable net return of 22.7%. We pride ourselves on our transparency. The below table illustrates our winners and losers for the financial year.

2017 Attribution	Return on capital employed	Contribution to 2017 net return
Winners		
Hillgrove Resources Limited	244.8%	6.8%
Kangaroo Island Plantation Timbers Limited	26.3%	6.7%
HGL Limited	27.2%	2.9%
Po Valley Energy Limited	119.4%	2.6%
NZME limited	88.1%	2.5%
Base Resources Limited	99.7%	2.4%
Osprey Medical Inc CDI	87.4%	1.6%
Nine Entertainment Co Limited	33.6%	1.3%
Losers		
Put Options over stock indices (hedges)	-80.0%	-1.3%
Australian Vintage Limited	-8.3%	-0.5%
Medusa Mining Limited	-43.0%	-0.5%
Kingsrose Mining Limited	-60.0%	-0.4%
Blackham Resources Limited	-29.2%	-0.4%
Beadell Mining Limited	-17.3%	-0.4%
Platina Resources Limited	-17.7%	-0.3%
Ramelius Resources Limited	-5.2%	-0.1%

Most of our positive returns were owing to company specific catalysts across a range of sectors. Most meaningful unforced errors were in the junior gold sector – we learnt to stick to our core competency of stock–specific, catalyst–driven investments rather than seek returns by overweighting a given sector. Cutting exposure to depreciating investments in a timely and rational manner is equally as difficult as picking winners. To this end, we are delighted that our biggest detractor during the year was put options over the stock market indices.

We routinely purchase puts to protect our unitholders' capital from excessive drawdowns during times of financial market stress. We do not pretend to have the ability to predict the timing of general market panics and believe our resources are better spent searching for undervalued small companies than speculating on risks to the financial system. Yet we acknowledge such market panics are inevitable over the longer term and when they hit they can have a global impact. Our response is to buy put options over global indices which are at least 5% out of the money. This minimises the insurance premium yet provides desired protection from big market downturns. At the time of writing, we have 1% of capital invested in put options with varying expiry dates over the next 12 months; these give us the right to sell short 35% of the fund if global indices decline by more than 5%. In addition to this exposure we have near 15% of capital invested in cash.

The local small company sector has experienced significant volatility over the last 6-9 months. A string of earnings downgrades and the underperformance of some of the high profile “growth” companies seem to have sparked a revolt from the sector. The retreat of what some may call the “hot money” is creating interesting investment opportunities. We look forward to the year ahead and will continue to focus our investments on small, misunderstood Australian companies with identifiable catalysts for return.

Mitch Taylor - 18 July 2017.

DISCLAIMER